

Why NSE Pension Index?

The NSE Pension Index whose constituents meet certain criterion (taxable profits, dividend, free float, sector and individual stock weighting) as defined by the PENCOM Investment Guidelines was created to ease the replication of equities portfolios and serve as performance benchmark for Pension Asset Managers, Non-Pension Asset managers and investors. It also helps PENCOM monitor compliance and performance of equities portfolios held by Pension Managers.

How far back do we have values for the NSE Pension Index?

The NSE Pension 40 Index values would be available as from January 2, 2013 (December 31, 2012 = 1000).

Why is the Exchange interested in launching a Pension Index?

The creation of the NSE Pension Index will encourage the development of other products such as Exchange Traded Products (ETP's) and Index Futures.

The pension index will also provide a tracking mechanism for PFAs, CPFA and others that follow the PENCOM guidelines. It can act as a benchmark for measuring performance and reporting performance to Retirement Savings Account (RSA) holders

How are companies selected?

The NSE Pension Index includes the top 40 companies in terms of market capitalisation and liquidity. It is a Total Return index and is weighted by adjusted market capitalization. Adjusted Market Capitalization of a listed company is the number of its listed shares, multiplied by the closing price of that company, multiplied by a Capping Factor. The index is also adjusted for Free Float Factor.

Only fully paid common shares, denominated in the Nigerian Currency are included in the index. Preferred shares, convertibles, bonds and mutual funds are all excluded.

What is the proposed methodology?

Given the size of the Pension Fund assets under management of PFAs, it is imperative that only companies with significant market capitalization should qualify for inclusion in the index. The NSE Pension 40 Index is based on the following selection criteria:

- ✓ The number of stocks is fixed at 40.
- ✓ The Stocks are picked based on their market capitalization from the most liquid sectors.
- ✓ In line with the Pension Reform guideline, no individual listed equity can have a weighting of more than 4.5%
- ✓ Also, no sector can have a weighting of more than 45%.
- ✓ No sector can have a weighing less than 2%
- ✓ Companies to be included must have Free Float Factor of at least 5%. For each stock an Investable Weight Factor (IWF) is determined. Where $IWF = \frac{\text{Available float shares}}{\text{total shares outstanding}}$. Available float shares are defined as total shares outstanding less shares held by control holders.
- ✓ Companies must have paid dividend/bonus at least once in the last five years
- ✓ It is a Total Return Index so that it can accurately measure equity portfolio performances, which capture returns from dividends, price changes and realized gain
- ✓ Total Return Index values will only be available end of day. There will be no intra-day values
- ✓ The index is reviewed annually on the first business day in January whereby constituents are changed (added or deleted) based on their market capitalization, liquidity in the previous twelve months and Free Float Factor.

How is the daily index value determined?

The daily index value is calculated by dividing the Current Market Value (closing price x Number of listed shares x Capping factor) of all constituent companies by a Base market Value.

The NSE Pension Index is calculated using the formula below:

$$\frac{\text{Current Market Value (CMV)}}{\text{Base Market Value (BMV)}} \times \text{Base Index Value (BIV)}$$

N.B. CMV = Current Issued Shares X Current Price X Capping Factors X Free Float Factor (%)

What is the meaning of Free Float?

Free float of a company is the proportion of its shares that are held by investors who are likely to be willing to trade the shares on the Nigerian Stock Exchange. However, it excludes those shares held by;

- Strategic shareholders - Strategic shareholders include Directors and those connected to them.
- Parent companies and others who have links with the company that go beyond those of a portfolio investor.
- Employees of the Issuer.
- Controlling Interest Investors.

Prior the revision of The Exchange's rules in 2012, the free float requirement for all listed companies on the Main board of The Nigerian Stock Exchange was 25% of the company's shares outstanding. The new rules revised the free float requirement to 20%. This Free Float level should be maintained at all times as it is not expected to fall below the 20% threshold but can go above 20%.

Presently, companies listed on The Exchange are expected to maintain this position and in case of default, The Exchange mandates the companies to sell down to the required level of free float within a specified time period.

How will dividend payment be treated under the NSE Pension Index?

The NSE Pension Index is a Total Return Index hence; normal dividend payments will be reinvested and accounted for in the total return index by a Divisor Adjustment.

Similarly, special dividends from non-operating income require index divisor adjustments to prevent the distributions from distorting the index (same with price index)

How large is the "Nigerian and Global Pension" space?

The Nigerian Pension Fund assets under management of PFAs of over N4.5trillion as at 30th June 2014) has the potential of growing higher. As at 2013, the 13 largest pension markets in the world accounted for more than 85% of global pension assets with a cumulative value of US\$31.98 trillion.